

Why CAFTA-DR?

Learn why CAFTA-DR is important to the economies of the Dominican Republic and Central America, and the U.S.

- *Historic and Comprehensive Free Trade Agreement*
- *Expanding Economic Opportunities for U.S. Manufacturers, Workers, and Farmers*
- *Leveling the Playing Field*
- *Advancing the U.S. Trade Agenda*
- *Supporting Democracy, Economic Reform, and Regional Integration*

Historic and Comprehensive Free Trade Agreement

The CAFTA-DR is an historic and comprehensive Free Trade Agreement that will strip away barriers to trade, eliminate tariffs, open markets, and promote investment. By promoting economic growth in the Central American countries of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, as well as in the Dominican Republic, this cutting edge pact will expand U.S. opportunities in important regional markets.

The CAFTA-DR countries and many other developing countries already enjoy duty free access to the U.S. market for the majority of their exports through trade preference programs provided by the U.S. Congress to promote economic development. Yet these countries often have high tariff and non-tariff barriers for U.S. exports and impose restrictions on U.S. businesses. State-of-the-art free trade agreements like CAFTA-DR not only reduce barriers to U.S. trade, but also require important reforms of the domestic legal and business environment that are key to encouraging business development and investment. Such reforms include providing greater transparency for government actions and rule making; strengthening the rule of law; and improving the protection and enforcement of intellectual property rights.

Moving from One-way Preferences to Reciprocity

For twenty years, most Dominican Republic and Central American exports to the United States have benefited from duty-free treatment, primarily as a result of the Caribbean Basin Initiative (CBI). With the expansion of the CBI program in 2000 (under the Caribbean Basin Trade Partnership Act, or "CBTPA"), about 80 percent of the region's exports now enter the United States duty-free.

Expanding Economic Opportunities for U.S. Manufacturers, Workers, and Farmers

Expanding Economic Opportunities for U.S. Manufacturers, Workers, and Farmers Trade between the United States and the CAFTA-DR countries is significant for all the Parties. In 2004, such trade totaled over \$33 billion. The United States exported almost \$16 billion in goods to the five Central American countries and the Dominican Republic in 2004, more than all exports to Russia, India, and Indonesia combined. A free trade agreement with Central America and the Dominican Republic would effectively create the second-largest U.S. export market in Latin America (\$16 billion), behind only Mexico, and the 10th largest U.S. export market in the world. The market access and trade disciplines provided by CAFTA-DR offer an opportunity to expand U.S. exports to a region that is already seeing high export growth rates. U.S. export growth to the CAFTA-DR region has outperformed overall U.S. exports. From 2000 to 2004, export shipments to CAFTA-DR destinations grew by almost 16 percent, compared with less than 5 percent for overall U.S. exports.

The market access and trade disciplines provided by CAFTA-DR would offer great opportunity to expand U.S. exports to the region. Central America is a natural trading partner of the United States; U.S. firms already enjoy close to a 50 percent share of the Central America import market. Geographic proximity and close cultural and familiar ties strengthen the

economic relationship. The region, with a population of about 34 million, is only a 2 - 2 ½ hour flight from either Miami or Houston. Remittances from families in the United States are an important and rapidly growing source of foreign exchange throughout the region and help to fund continued imports of U.S. goods and services. Most U.S. firms that do business with Central America already operate on a regional basis. CAFTA-DR would bring about additional opportunities to harmonize the Central American market and allow U.S. businesses to better serve the regional, integrated market.

Leveling the Playing Field

CAFTA-DR would level the playing field for U.S. businesses that sell to Central America. U.S. products currently face a competitive disadvantage because Central American countries have been active in negotiating FTAs in which the United States is not a participant. More than 20 trade agreements grant preferences in Central America to products from Mexico, Canada, Chile, and several South American nations. CAFTA-DR would ensure that U.S. companies are not disadvantaged by the trade agreements that Central America has already negotiated with our NAFTA partners and other countries.

Advancing the U.S. Trade Agenda

CAFTA-DR is a key part of America's regional and global efforts to open markets around the world to enable U.S. businesses to sell our goods and services. CAFTA-DR will lend momentum to complete the Free Trade Area of the Americas (FTAA). CAFTA-DR signals that Central America and the Dominican Republic is ready to join the United States, Mexico, Canada, and Chile as free trade leaders in the hemisphere. As Central America's stake in the trading system expands, we will look for new opportunities to work together in other multilateral negotiations such as the WTO. The common disciplines and trade objectives developed through CAFTA-DR will enhance the ability of all six parties to forge consensus in the WTO. America's free trade partners form the vanguard of a global coalition for free markets.

Supporting Democracy, Economic Reform, and Regional Integration

During the past decade, Central American countries have solidified democratic systems of government and begun implementing economic reforms to promote privatization, competition, and open markets. The countries have emerged from a period of severe civil conflicts and economic deterioration that plagued the region during the 1970s and 1980s. The United States has supported this transition to democratic institutions, enhanced economic growth, and security for human rights through programs such as the Caribbean Basin Initiative, including the Caribbean Basin Trade Partnership Act. CAFTA-DR would commit the Central American countries to even greater openness and transparency, which would deepen the roots of democracy, civil society, and the rule of law in the region, as well as reinforce market reforms. These reforms, coupled with the increased trade and investment flows, would promote expanded growth and openness in the region, as well as support common efforts to achieve stronger environmental protection and improved working conditions. CAFTA-DR goes beyond previous free trade agreements through a three-part cooperative approach to improve working conditions by: 1) Ensuring effective enforcement of existing labor laws, 2) Working with the International Labor Organization (ILO) to improve existing labor laws and enforcement, and 3) Building local capacity to improve worker rights.

Furthermore, CAFTA-DR would promote close cooperation among the Central American countries, thereby advancing regional integration and contributing to greater peace, economic cooperation, and stability in the region. The conditions would be improved to advance U.S. objectives in fighting drug trafficking, organized crime, terrorism, exploitative child labor, and illegal immigration. In this light, CAFTA-DR can be viewed as more than a trade agreement, but as an important instrument to support U.S. national security interests.